

# Taxpayer Burden Reduction Summary of Options

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## I. Introduction

At the September 20, 2006 FTB Board meeting, staff were directed to explore options for reducing the state income tax filing burden for low- and middle-income taxpayers. This request was raised in the context of the going-forward issue of ReadyReturn, and whether there are legislative and/or other options that could be brought forward to advance burden reduction efforts for these segments of California taxpayers.

Among other topics, an important part of the September 20 discussion included the consideration of using a public-private partnership to provide services that help reduce filing burden. To discuss that and other burden reduction issues, on November 1, 2006 we held a joint symposium with interested stakeholders who represent the software industry, tax practitioners, and taxpayers.

At the joint symposium, the following primary subjects were driven out for discussion.

1. Filing & Policy: state-level Free File Program and ReadyReturn  
*Staff recommendation:* Possible Board action
2. Provide taxpayers access to their own data  
*Staff recommendation:* Follow September 20, 2006 Board direction
3. Improve options for making payments and receiving refunds  
*Staff recommendation:* Assess and study stakeholder input and report back to the Board
4. Provide better taxpayer outreach  
*Staff recommendation:* Assess and improve outreach
5. Improve paper and electronic filing process  
*Staff recommendation:* Assess and improve filing process
6. Simplify tax forms and instructions  
*Staff recommendation:* Assess and simplify tax forms and instructions
7. Obtain a better understanding of taxpayer burden  
*Staff recommendation:* Assess and develop burden reduction strategy

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### II. Summary of Options

The following is a summary of the options discussed, along with staff's recommendation.

#### 1. Filing & Policy: state-level Free File Program (Free File) and ReadyReturn

*Determine the policy or law changes that would provide California taxpayers with access to free commercial e-file products through Free File and/or retain our free and direct-to-government services (CalFile and ReadyReturn).*

Participation in Free File at the state level would currently prohibit us from retaining either CalFile or ReadyReturn. We understand the Free File Alliance participants at the federal level are making positive changes to address specific concerns of Congress, as well as those of oversight and taxpayer advocacy functions. It is also understood that improvements are being considered for state-level Free File programs. At the same time, Congress has expressed growing interest in the IRS providing a free taxpayer-to-government e-file service that reaches all taxpayers. We feel that providing California taxpayers with both Free File choices and direct-to-government filing choices would serve to most appropriately reduce their state income tax filing burden.

The Budget trailer bill (AB 139, Stats. 2005, ch. 74 § 75.5) for the 2005-2006 fiscal year contains language directing ReadyReturn to be operated in the same manner it was operated in during the 2004-2005 fiscal year. Our legal staff construes that language as applicable only to the budget year identified. Industry representatives, however, state they think the prohibition is ongoing. Legislative Counsel has opined that this same language does not bar us from implementing a permanent ReadyReturn program.

**Action A:** A legislative proposal to make ReadyReturn a permanent program and resolve any legal questions has been prepared by staff for the Board's review and potential action<sup>1</sup>. Prior Board action directs staff to implement a permanent ReadyReturn program.

**Action B:** FTB staff is directed to explore with industry a state-level Free File proposal that includes the retention of direct-to-government filing services, such as CalFile and ReadyReturn.

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<sup>1</sup> [Appendix A](#) includes a copy of the ReadyReturn Legislative Proposal and Executive Summary.

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Meeting notes from November 1, 2006 Joint Symposium regarding Filing and Policy:

Topic	Sub Topic	Discussion Points
<b>Filing &amp; Policy</b>	Keep ReadyReturn on the table.	<ul style="list-style-type: none"><li>• ReadyReturn requires taxpayer to check data provided by FTB so it's still a challenge.</li><li>• FTB should have ALL data on a taxpayers' ReadyReturn rather than just wage and withhold information.</li><li>• Taxpayers accept FTB's figures, risking underreporting income (tax gap).</li><li>• Study taxpayers who use software but still print and mail their return as well as do-it-yourself paper filers.</li><li>• ReadyReturn only serves a small population.</li><li>• Encourage FTB to look at reformed alliance &amp; look at the UK's similar model.</li><li>• Taxpayers that used ReadyReturn liked it.</li></ul>

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Topic	Sub Topic	Discussion Points
<b>Filing &amp; Policy (continued)</b>	Consider Free-file based alternative	<ul style="list-style-type: none"> <li>• IRS' Free-File is not user friendly or free.</li> <li>• Don't replace online filing with free-file.</li> <li>• Free-file is being improved to meet taxpayer needs.</li> <li>• FFA is being improved (industry + government).</li> <li>• Prohibits taxpayer from participating if they don't qualify.</li> <li>• FFA is not required/intended for states.</li> <li>• Possibly reform FFA to meet FTB and taxpayer's needs.</li> <li>• FFA needs to be a consumer free safety zone.</li> <li>• A lot of taxpayers use federal Free-file. The state should mirror to reduce burden.</li> <li>• Reform needed – don't sell taxpayer other products.</li> <li>• Cannot always file state return for free.</li> <li>• FFA only if no government product.</li> <li>• FFA reduces burden for low income taxpayers.</li> </ul>
	CalFile	<ul style="list-style-type: none"> <li>• CalFile related to 'access to data' (easy, accessible, transparent--broaden/expand to taxpayers)</li> <li>• Taxpayers use CalFile for direct service; how does Free- file option mitigate this?</li> </ul>
	Other	<ul style="list-style-type: none"> <li>• Shorten refund cycle for CA e-file.</li> <li>• FTB already has both free-direct e-file, and e-file provider information on the website.</li> </ul>

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### 2. Provide taxpayers access to their own data

*Allow access to information we have which could make it easier to file and pay taxes, therefore reducing taxpayer burden.* This could include not only the viewing of data but also the importing of data into third party software and populating on-line forms including tax returns for current and prior years. Robust security and authentication were cited by Industry and staff as important considerations for any solution we put in place to facilitate taxpayer data access.

**Action:** No Board action is required at this time. At the September 20, 2006 Board meeting, we were directed to implement the ability to view wage and withholding data online and to complete a feasibility study report to determine the technical and business feasibility of importing California wage, withholding and estimate payment information into third-party software preparation products and our CalFile application. We are also beginning work on defining an authentication “road map”. Staff will report back to the Board with the results of both efforts.

Meeting notes from November 1, 2006 Joint Symposium regarding taxpayer data access:

Topic	Sub Topic	Discussion Points
Access to Data	Allow taxpayers and practitioner the ability to pre-populate online forms and returns.	<ul style="list-style-type: none"> <li>• Policy is transparency; ability to pre-populate would assist in transparency.</li> <li>• Make it possible to pre-populate forms rather than relying on manual input. This would reduce errors.</li> <li>• Transparency equals less burden.</li> </ul>
	Provide return information to taxpayers for historical records.	<ul style="list-style-type: none"> <li>• Allow taxpayers to go to source of the data (FTB) to minimize errors.</li> <li>• Provide access to prior year return information.</li> <li>• Provide access to notices, correspondence, and billings.</li> </ul>

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Topic	Sub Topic	Discussion Points
<b>Access to Data (continued)</b>	Seamless access to taxpayer data for everyone.	<ul style="list-style-type: none"> <li>• Individuals' data should not be available to anyone other than the taxpayer and not easily accessed by anyone else.</li> <li>• Accountants/Preparers should have access to taxpayer information on file with taxpayer's authorization.</li> <li>• Study what the taxpayer wants to access and when they need it. Study whether they need current information or historical.</li> <li>• Give accountant and/or e-file preparer access to taxpayer data to assist with filing and post-filing issues.</li> <li>• Allow maximum transparency of data. Provide access to information from other state agencies such as:               <ul style="list-style-type: none"> <li>▪ EDD data</li> <li>▪ Employer data</li> <li>▪ FTB data</li> </ul> </li> </ul>
	Access to prior year data and allow populating of the return.	<ul style="list-style-type: none"> <li>• FTB should compile data and have it available to ease burden for taxpayers and preparers.</li> </ul>
	E-database for tax info, including prior year.	<ul style="list-style-type: none"> <li>• Allow businesses to verify and correct employment data.</li> </ul>

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### 3. Improve options for making payments and receiving refunds

*Make it easier and/or cheaper for taxpayers to pay what they owe and provide more options for receiving their refunds.* Innovative suggestions included eliminating the credit card convenience fee for low-income taxpayers; allowing for a credit card payment option on the tax return; and allowing taxpayers the option to have their refund loaded onto a public benefits card.

**Action:** No Board action is required at this time. Staff will analyze the feasibility of the suggestions and provide a recommendation to the Board.

Meeting notes from November 1, 2006 Joint Symposium regarding improving payment and refund choices:

Topic	Sub Topic	Discussion Points
<b>Payments &amp; Refunds</b>	Eliminate credit card convenience fee for low-income taxpayers.	<ul style="list-style-type: none"> <li>Most online companies don't charge a convenience fee for using a credit card. The current convenience fee may add to taxpayer burden.</li> </ul>
	Consider not processing/sending low refunds.	<ul style="list-style-type: none"> <li>Look at the processing costs to issue a refund. Have an option to rollover a refund to the next year if under \$10.</li> </ul>
	Look at Refundable Earned Income Tax Credit & Child and Dependant Care Credit.	<ul style="list-style-type: none"> <li>EITC/CDC – Recommend a future forum to discuss</li> <li>Expanded burden to require additional information for providers' address &amp; SSN.</li> </ul>
	Threshold for paying when taxes are owed (i.e., don't need to send in money if owe < \$10)	<ul style="list-style-type: none"> <li>Forgive taxes under \$10 or as appropriately cost/beneficial.</li> </ul>
	Option to have refund loaded onto a public benefits card.	<ul style="list-style-type: none"> <li>Develop or use an electronic prepaid card (like a county benefits card) for taxpayers who don't have a bank account.</li> <li>Public benefits card would provide better financial management for those taxpayers without an account.</li> </ul>
	Allow taxpayers to use refunds to directly purchase savings bonds.	<ul style="list-style-type: none"> <li>May help taxpayers save or lead them to invest.</li> </ul>
	Bad addresses for refunds – send returned refunds to employer.	<ul style="list-style-type: none"> <li>Make a better attempt to get taxpayers with returned mail their refund check.</li> </ul>

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Topic	Sub Topic	Discussion Points
<b>Payments &amp; Refunds (continued)</b>	Offset credit for refunds not issued because of bad address to future years.	<ul style="list-style-type: none"><li>• If FTB is unable to locate a taxpayer who is due a refund, consider applying the funds directly toward future years, instead of “holding” the refund in their tax account.</li></ul>
	Many taxpayers don't use direct deposit because they don't want to give out their bank information. Educate taxpayers on what information is provided to FTB and what FTB does with their information.	<ul style="list-style-type: none"><li>• Perception issue for direct deposit. Taxpayers don't want to give a government agency bank information.</li></ul>

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### 4. Provide better taxpayer outreach

*Improve the way we provide information to taxpayers that will assist them in filing and paying their taxes.* Suggestions focused on working with external parties such as consumer groups to provide taxpayers with education on managing their finances; tax professionals to provide taxpayers with information on what records they should keep; and providing VITA<sup>2</sup> volunteers with education earlier in the year so they could open their tax assistance sites sooner.

**Action:** No Board action is required. Staff will move toward developing strategy and taking appropriate action in this area.

Meeting notes from November 1, 2006 Joint Symposium regarding taxpayer outreach:

Topic	Sub Topic	Discussion Points
<b>Financial Education and Outreach</b>	Outreach for "financial literacy".	Develop strategies and outreach efforts for educating taxpayers on financial savings, financial planning, etc. For example: <ul style="list-style-type: none"> <li>• Financial literacy - CA Society of CPAs are promoting.</li> <li>• Provide bonus to taxpayer (incentive to e-file).</li> </ul>
	Involve non-profit/consumer groups.	<ul style="list-style-type: none"> <li>• Partner with non-profit and consumer groups to educate taxpayers on financial literacy and tax planning.</li> </ul>
	List for taxpayers to assist with filing.	<ul style="list-style-type: none"> <li>• Develop educational materials for taxpayer record keeping.</li> <li>• Provide a list of items and records taxpayers will need to prepare return.</li> </ul>
	Include consumer groups in process.	<ul style="list-style-type: none"> <li>• Provide information on basic government benefits such as the food stamp and healthy family program.</li> </ul>
	Getting information early for outreach: VITA/taxpayer/preparer	<ul style="list-style-type: none"> <li>• Partner with stakeholders to educate taxpayers on financial literacy and planning.</li> <li>• VITA is not available until February; consider providing in January.</li> </ul>
	Educate taxpayer on payment options.	<ul style="list-style-type: none"> <li>• Educate taxpayers on the different payment options available.</li> </ul>

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<sup>2</sup> Volunteer Income Tax Assistance program

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### 5. Improve paper and electronic filing process

*Make changes to the e-file process to make it faster and easier for taxpayers and stakeholders.* Suggestions included reducing the number of rejected returns due to a mismatch between the data entered by the taxpayer and data we have on file; providing an immediate acknowledgment of receipt to commercial on-line e-file products as is done with CalFile; and work with tax professionals and commercial software providers to ensure they have all the tools they need to provide tax information to their clients on behalf of the department.

**Action:** No Board action is required. Staff will study and take appropriate action.

Meeting notes from November 1, 2006 Joint Symposium regarding improving the filing process:

Topic	Sub Topic	Discussion Points
<b>Process Improvement</b>	Use Federal Net Income/AGI	<ul style="list-style-type: none"> <li>The state return would be based on the federal net income or federal adjusted gross income.</li> </ul>
	Work on e-file rejection rate (lower rejection rate).	<ul style="list-style-type: none"> <li>Look at e-file rejection rates independently. (Analyze the reasons e-file returns are rejected to see if the number of rejections can be reduced.)</li> </ul>
	Immediate Acknowledgement.	<ul style="list-style-type: none"> <li>Evaluate the feasibility of providing instant acknowledgement of whether an e-file return is accepted or rejected. Currently, e-file returns are submitted in a batch and acknowledgements are available in 10 – 30 minutes.</li> </ul>
	Improve practitioner/software developers/FTB process.	<ul style="list-style-type: none"> <li>There is a relationship between taxpayers, practitioners, software developers, and FTB. Work on tools for each and we'll improve the process. Industry provides value-added services to the taxpayer that isn't available with software alone.</li> </ul>
	Have California participate in joint filing program with IRS.	<ul style="list-style-type: none"> <li>Suggestion for FTB to consider Fed/State filing program.</li> </ul>
	Begin with issues on the Federal return.	<ul style="list-style-type: none"> <li>Review where burden is heaviest – address 1st! Burden is on federal items such as EITC. Explore differences between federal and state and simplify both to simplify the process.</li> <li>No matter how we simplify the state, taxpayers still have to prepare a federal return.</li> </ul>

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### 6. Simplify tax forms and instructions

*Make the tax forms and accompanying instructions easier to read and understand by taxpayers. Ways this could be accomplished include working with the IRS, tax preparation industry and non-profit groups to address the complexity of determining the federal EITC<sup>3</sup> and CDC<sup>4</sup> eligibility and claim. We could tailor the instructions to only include the most common filing situations for this audience; test the readability of the forms and instructions for this audience and provide tax forms and instructions in languages other than English.*

**Action:** No Board action is required. Staff will study and take appropriate action.

Meeting notes from November 1, 2006 Joint Symposium regarding simplifying forms and instructions:

Topic	Sub Topic	Discussion Points
<b>Instructions</b>	Simplify Instructions.	<ul style="list-style-type: none"> <li>• Disclaimers- CA has too many disclaimers on their forms.</li> <li>• Written form advice is too narrow in scope. Need to provide forms in multiple languages (Minnesota has tax forms in 10 languages).</li> <li>• Instructions are currently too confusing and are difficult to understand. Confused taxpayers will not understand what their benefits are or how to claim them; therefore they may lose out on the benefits they're entitled to. (e.g. renters credit.)</li> </ul>
	Tailor instruction to most common filing situations.	<ul style="list-style-type: none"> <li>• 2/3 of Federal taxpayers don't itemize and 80% of the complexities are on the business side. Forms should be tailored to target specific types of returns (Wage earners rather than business and itemized deductions.)</li> </ul>
	Test readability of forms for audience.	<ul style="list-style-type: none"> <li>• Conduct usability studies with taxpayers on understanding forms and instructions.</li> <li>• Provide information in multiple languages.</li> </ul>
	Continue to allow practitioners to comment on draft forms.	<ul style="list-style-type: none"> <li>• Practitioners know their audience and have valuable input on improving the clarity of forms and instructions.</li> </ul>
	Address withholding instructions.	<ul style="list-style-type: none"> <li>• Withholding instructions are especially complex for their targeted audience. Many returns are filed only for the purpose of claiming withholding, and that otherwise do not have a filing requirement.</li> </ul>

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<sup>3</sup> Earned Income Tax Credit

<sup>4</sup> Child and Dependent Care Credit

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7. Obtain a better understanding of burden.

*Determine what part of filing and paying taxes taxpayers consider as being burdensome, by using surveys and focus groups to more accurately measure taxpayer burden.*

**Action:** No Board action is required. At the November 1 meeting, we generally discussed the need for a better understanding of what the true filing burden is for low- and middle-income taxpayers. While we are able to define how many taxpayers fit into these income categories, as well as how they file their returns (self-prepared, practitioner, etc.), the group acknowledged that more work needed to be done to understand what their burden is before we can most appropriately address where and how it can be alleviated. Accordingly, staff will proceed to develop in-depth studies of taxpayer filing burden and develop appropriate strategies to reduce that burden.

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## Appendix A

The following six pages contain the text from the ReadyReturn Legislative Proposal and Executive Summary.

# LEGISLATIVE PROPOSAL EXECUTIVE SUMMARY

- **Title:** Make ReadyReturn Pilot Program A Permanent Statutory Program
  
- **Problem Statement:** Eliminating or strictly limiting ReadyReturn as one of several filing options undermines long-established legislative and departmental goals to ease the filing burden placed on taxpayers and to maximize use of efficient and cost effective technology. (See summary of Options discussion.)
  
- **Proposed Solution:** Amend section 19582 of the Revenue and Taxation Code to explicitly authorize ReadyReturn.
  
- **Major Concerns/Issues:** It is appropriate for government to provide ReadyReturn as a filing option because government imposes the burden to prepare and file a tax return. This proposal would promote fair and effective tax administration by increasing the ease of filing returns while capitalizing on opportunities to improve efficiency through the use of electronic processes and services.
  
- **Fiscal Impact:** This proposal would result in a net cost to the department as detailed below. System changes are needed to provide a more robust platform to accommodate the anticipated increase in ReadyReturn participants. The majority of the costs are incurred in offering a paper ReadyReturn option to taxpayers. The reduction in costs in subsequent years assumes increased participation in the ReadyReturn Program by eligible taxpayers.

<b>Cost and Benefit</b>	<b>2007 Tax Year</b>	<b>2008 Tax Year</b>	<b>2009 Tax Year</b>
One-time IT Costs-Online	(\$171,000)		
Yearly Costs- Online	(\$108,000)	(\$122,000)	(\$126,000)
One Time IVR Costs	(\$70,000)		
Yearly Costs-IVR		(\$19,000)	(\$19,000)
Yearly Staff Costs for Calls	(\$72,000)	(\$162,000)	(\$192,000)
Yearly Mailing Costs	(\$21,000)	(\$63,000)	(\$112,000)
<b>Subtotal-Costs</b>	<b>(\$442,000)</b>	<b>(\$366,000)</b>	<b>(\$449,000)</b>
Benefits from Online Filing	\$92,000	\$212,000	\$282,000
Benefits from Paper Filing	\$4,000	\$11,000	\$19,000
<b>Net (Cost)/Benefit</b>	<b>(\$346,000)</b>	<b>(\$143,000)</b>	<b>(\$148,000)</b>

## **Title**

Make ReadyReturn Pilot Program A Permanent Program

## **Introduction**

This proposal would allow Franchise Tax Board to offer the ReadyReturn filing option to eligible taxpayers as a permanent program.

## **Program History/Background**

On August 25, 2004, the three-member Franchise Tax Board directed FTB staff to develop and implement the ReadyReturn pilot program. The objectives of the program were to reduce the filing burden on taxpayers, improve efficiencies in tax administration, and reduce operating costs for the department. The premise of the ReadyReturn was to use information already available to the department, such as W-2 information, to provide taxpayers their completed return for final approval and filing.

FTB staff deployed the ReadyReturn pilot program in February 2005. Approximately 50,000 taxpayers were invited to participate in the pilot based on characteristics commonly found on simple returns. Staff compiled returns for each taxpayer based on available data and sent the return to the selected taxpayer. The taxpayer was given the option to accept the return as completed by the department, adjust the compiled information to reflect information not captured by the department, or reject the proposed return and file using a traditional method. Approximately 11,000 ReadyReturns were filed under the pilot program.

In June, 2005, FTB completed a preliminary study to determine the effectiveness of the ReadyReturn pilot. The majority of ReadyReturn online survey respondents, 95%, felt that ReadyReturn was a service that government should provide and expressed their willingness to participate the following year. Based on the results of the pilot and FTB staff recommendations, the three-member Board unanimously voted on June 15, 2005, to make the ReadyReturn pilot program a permanent program.

On July 19, 2005, Assembly Bill 139, one of the budget trailer bills, was chaptered (Stats 2005, Ch. 74). AB 139 states that ReadyReturn shall remain a pilot for FY 2005/06, unless later enacted legislation is passed to continue the program.

## **Current Federal Practice**

Current federal law mandates the IRS to increase the percentage of returns filed electronically by taxpayers. The IRS has partnered with private industry to develop the IRS Free File Program, where taxpayers that meet specific criteria can file electronic returns at no cost using private vendors to meet this objective. In exchange for industry development of the Free File Program, the IRS has agreed to not pursue direct on line e-file services or programs. For returns filed for the 2005 tax year, new criteria was added that limited Free File Program participation to those tax payers with AGI of \$50,000 or less. A September 29, 2006 study of the Free File Program by the Treasury Inspector General for Tax Administration found that the use of the Free File Program

declined 23 % after income restrictions were applied, which eliminated approximately 39 million taxpayers from eligibility. The IRS lacks any filing option similar to ReadyReturn.

### **Current State Law**

Current state law authorizes FTB to develop and make available forms for taxpayers that are as simple as possible for taxpayers to prepare. FTB is required to ease taxpayers' compliance burden in the form and design of tax returns.

### **Problem**

Eliminating or strictly limiting ReadyReturn as one of several filing options undermines long-established legislative and departmental goals to ease the filing burden placed on taxpayers and to maximize use of efficient and cost effective technology.

### **Proposed Solution**

Amend section 19582 of the Revenue and Taxation Code to specifically authorize ReadyReturn.

### **Effective/Operative Date of Solution**

This proposal would be effective upon enactment and, unless enacted as an urgency measure, would be operative as of January 1, 2008 for returns filed for the 2007 tax year.

### **Justification**

It is appropriate for government to provide ReadyReturn as a filing option because government imposes the burden to prepare and file a tax return. This proposal would promote fair and effective tax administration by increasing the ease of filing returns while capitalizing on opportunities to improve efficiency through the use of electronic processes and services.

### **Implementation**

Implementation of this proposal would not significantly impact the department's programs.

## **FISCAL IMPACT**

Implementation of this proposal would result in a net cost to the department as detailed below. System and program interfaces need to be revised to provide a more robust platform to accommodate the anticipated increase in ReadyReturn participants. The majority of the costs are incurred in offering a paper ReadyReturn option to taxpayers. The paper return option would utilize an Interactive Voice Response function that would interface with the FTB ReadyReturn processes to determine eligibility and initiate a mailing to the taxpayer. The reduction in costs in subsequent years assumes increased participation in the ReadyReturn Program by eligible taxpayers.

<b>Cost and Benefit</b>	<b>2007 Tax Year</b>	<b>2008 Tax Year</b>	<b>2009 Tax Year</b>
One-time IT Costs-Online	(\$171,000)		
Yearly Costs- Online	(\$108,000)	(\$122,000)	(\$126,000)
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<b>Net (Cost)/Benefit</b>	<b>(\$346,000)</b>	<b>(\$143,000)</b>	<b>(\$148,000)</b>

### **Economic Impact**

This proposal would not significantly impact state income tax revenues.

### **Agency/Industry Impacts**

The tax software industry has spoken at meetings of the three-member FTB in opposition to the department's efforts to provide ReadyReturn to California taxpayers contending that ReadyReturn places government in competition with private industry, increases the tax gap, and still requires a taxpayer to calculate taxes to determine whether the ReadyReturn is prepared correctly. In contrast, some taxpayer advocacy groups have spoken in favor of the pilot, citing the positive comments received from users of the ReadyReturn.

### **Other States**

The states surveyed include *Michigan, Massachusetts, Illinois, Minnesota, and New York*. These states were elected due to their similarities to California's economy, diversity of taxpayers, and tax laws. While these states generally provide opportunities for taxpayers to file electronic returns as well as paper returns, there is no indication that these states provide pro forma returns for any population of taxpayer.

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FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO  
Revenue and Taxation Code Section 19582

SECTION 1. Section 19582 of the Revenue and Taxation Code is amended to read:

19582. (a) For taxable years beginning on or after January 1, 1987, the Franchise Tax Board shall make available to taxpayers tax forms (including those provided as a part of the ReadyReturn program described in subdivisions (c) and (d)) that are as simple as possible for taxpayers to prepare. These forms shall be designed to provide for taxpayers to copy figures from, or attach a copy of, their federal return or portions thereof, or both, and to make any necessary adjustments.

(b) The Franchise Tax Board shall, in preparing tax forms, make every effort to ease taxpayers' compliance burden, including, but not limited to: ~~(a)~~

(1) ~~(a)~~ Designing forms so that, to the maximum extent possible, items already entered on the federal return may be copied to the state form.

(2) ~~(b)~~ Reducing the number of state schedules by attaching copies of comparable federal schedules to the state return, where appropriate. ~~(c) e~~

(3) Choosing a weight and quality of paper, color of ink, and general form design which will facilitate the preparation of returns.

(c) (1) The ReadyReturn Program is an optional filing method that provides eligible taxpayers a tax return using tax data of the taxpayer already collected by the Franchise Tax Board, and calculations based on that data.

(2) The Franchise Tax Board may provide all eligible taxpayers with a ReadyReturn in electronic format in the manner specified in this section. The ReadyReturn shall include a record of the taxpayer's wages that have been reported by employers. The ReadyReturn shall also provide the tax liability attributable to that income.

(d) The Franchise Tax Board shall notify taxpayers that the ReadyReturn Program is an available filing option for eligible taxpayers. The notification shall contain all of the following information:

(1) That taxpayers eligible for the program may choose to view or file a ReadyReturn under the program.

(2) A description of the ReadyReturn Program that includes, but is not limited to, the following statement:

"ReadyReturn gives a taxpayer access to the wage data received from his or her employer. ReadyReturn gives a taxpayer the option of viewing or filing a ReadyReturn. A ReadyReturn is a completed tax return that is based on the following: wage data received from an employer, the taxpayer's filing status from the prior year, amounts withheld by the employer, and additional taxes owed to the state or refund owed to the taxpayer."

(3) Immediately below the description set forth in paragraph (2) and in boldface type and in a large font, the following statement:

"The ReadyReturn Program is an optional service for the convenience of taxpayers with simple returns. You are under absolutely no requirement to use this program. You may choose not to look at the online program, or to look at the online program and not file the ReadyReturn. If you choose not to view or file a ReadyReturn, this will not affect your tax liability in any way."

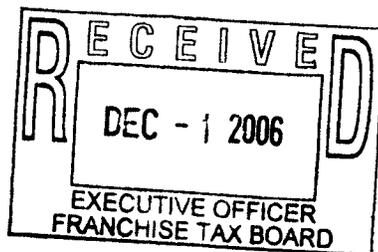
(4) The statement described in paragraph (3) shall be prominently displayed on the ReadyReturn Web site, and provided to every taxpayer that uses the online ReadyReturn prior to logging in and prior to electronically signing an electronically submitted ReadyReturn.

(e)(1) A negative inference shall not be drawn from a taxpayer's decision not to file a ReadyReturn or to file a return under a different method.

(2) If a taxpayer files a ReadyReturn, a penalty shall not be imposed pursuant to subparagraph (B) of paragraph (1) of subdivision (a) of Section 19132 with respect to any tax required to be shown on that return which is not so shown.

(f) It is the intent of the Legislature that the Franchise Tax Board develop an alternative method for eligible taxpayers without access to the Internet to request their completed ReadyReturn in paper form. The Franchise Tax Board may eliminate the paper ReadyReturn delivery option if the volume of paper ReadyReturn requests decreases below 10 percent of the total ReadyReturns filed in the immediately previous taxable year.

SEC. 2. The Legislature finds and declares that, for purposes of Section 75.5 of Chapter 74 of the Statutes of 2005, this act shall be considered to be later enacted legislation authorizing the ReadyReturn filing program.



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CA Income Tax Summary Memo

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In a recently completed survey by David Binder Research, voters show strong opposition toward the ReadyReturn system for filing California state income taxes. While initial opposition is strong, hearing statements, arguments, and cost information further erodes support until voters are seven times more likely to oppose the system, than support it.<sup>1</sup>

### **Low Awareness, Low Support**

Before being introduced to the ReadyReturn tax filing system, only three in ten (30%) California voters are aware of the system, and that awareness is similar across demographic groups, with no major demographic group having awareness of greater than 35%.

After hearing an initial description of the ReadyReturn program, only 36% of all California voters are supportive, while 49% are opposed, including 32% who are strongly opposed. The strongest support comes from voters under 30 (51% support), Latinos (50% support), and those who use storefront tax preparers like H&R Block (50% support).

The strongest opposition comes from Southern California voters (53% opposed), Republicans (52% opposed), and White voters (51% opposed). Republican men from Southern California are the strongest opposition major subgroup with 61% opposed to the idea; including 43% who say they are strongly opposed to the ReadyReturn program, after hearing just initial information.

<b>INITIAL ASK</b>	<b>SUPPORT</b>	<b>OPPOSE</b>
All Voters	36	49
White	34	51
Latinos	50	43

### **Voters Trust Independent Tax Preparers More Than a State Agency**

When asked whether the service is “good and useful” or “risky and a waste of taxpayer dollars”, two-thirds (64%) of voters say risky, while only 23% say it is a useful service. Voter perception that ReadyReturn is risky comes from their underlying distrust of state agencies. Asked who they trust more – a state agency or an independent tax preparer – an overwhelming 81% say they trust an independent tax preparer more, while only 7% say they trust a state agency more.

Of those who say that they trust an independent tax preparer more (81% of all respondents), an even more lopsided 72% say the service is risky and wasteful, while only 16% say it is a good

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<sup>1</sup> David Binder Research surveyed 800 voters living in California from April 1<sup>st</sup> to 4<sup>th</sup>, 2006. Results are subject to a margin of error of 3.5%.

and useful service, demonstrating that those who do not trust a state agency (strong majority) drive belief that the program is risky.

### **Voters Would Rather Do Taxes Themselves than Trust a State Agency**

Voters are distrustful of the Franchise Tax Board, with 60% saying they distrust the agency, and only 4% of all voters saying they “completely trust” the Board. This means that 96% of all voters have some reservations about completely trusting the California Franchise Tax Board.

As a result, voters overwhelmingly choose to prepare taxes themselves (86%) over having the Board prepare them for them (9%). Similarly, when asked about the Board computing their taxes and sending them to voters, 87% of voters say they would calculate their own taxes to check the Board’s results.

### **Wasting Tax Money and Not Being Helpful Lead Voters’ Reasons to Oppose ReadyReturn**

Arguments against ReadyReturn are overwhelmingly persuasive, with every argument surpassing the rule of thumb that an argument can be effective if 40% of voters find it very persuasive. In contrast, none of the supporters’ arguments pass this rule of thumb test. The most persuasive argument is that the program will end up costing the state more than it saves because of the additional bureaucracies required by such a program. Three in five (60%) of voters find this argument very persuasive. Similarly, 57% find very persuasive the argument that the program does not actually even help taxpayers, as they will still have to calculate their tax returns to ensure that the state’s assessment is accurate.

### **Learning More Increases Opposition to ReadyReturn Even More**

After hearing arguments on both sides, voters become firmer in their opposition to the program with two in three (67%) opposing the program, including 46% who oppose it strongly, and only 25% supporting it. After hearing arguments, the strongest opposition comes from Republicans (73%), especially those from Southern California (79%). Again, Republican men from Southern California are the demographic subgroup of strongest opposition, with 86% opposing ReadyReturn, including 71% who oppose it strongly.

	<b>SUPPORT</b>	<b>OPPOSE</b>
ASK 1: Initial Ask	36	49
ASK 2: After Program Statements	25	67
<b>CHANGE:</b>	<b>-11</b>	<b>+18</b>

### **Voters Who Use Tax Preparers More Likely to Increase in Opposition**

Voters who use storefront tax preparation, such as H&R Block, grew in opposition more than other groups. Although they were initially more supportive than other groups (50% supportive and 38% opposing), hearing statements about the program eroded that initial support until they were almost on par with other voters (29% support, 63% oppose). Thus, support dropped by 21 and opposition increased by 25.

For this group, the most persuasive argument was the same as for all other participants – that the program would end up costing the state more than it saved in the additional bureaucracies that would be required (59% very persuasive). However, also extremely persuasive was the conflict of interest argument – that having the same agency collect taxes and prepare tax returns is a conflict of interest – which was found very persuasive by 57% of those who use storefront tax preparers.



## Voters Agree With Opponents on All the Main Tradeoffs; Opposition Grows Again

When asked whether they agree more with supporters or opponents on a number of basic arguments, 70% or more side with opponents on each question.

- 70% agree that it is unnecessary, costly, and another example of government trying to expand its role in people's private lives;
- 73% agree that the state has a history of security breaches and voters cannot trust the state to keep individual tax information private;
- 79% agree that the program will end up costing taxpayers plenty despite what the state says;
- 70% agree that it is a conflict of interest for the same government agency to collect taxes and prepare taxes.

After hearing all these arguments, as well as supporters' arguments, which less than a quarter of respondents agreed with, opposition grows even more to 70% opposing the initiative, including a full half of all voters (50%) who say that they oppose the program strongly. Support still stands at one in four voters (24%).

	SUPPORT	OPPOSE
ASK 1: Initial Ask	36	49
ASK 2: After Program Statements	25	67
ASK 3: After Arguments	24	70
<b>CHANGE:</b>	<b>-1</b>	<b>+3</b>

## Once Opposition, Always Opposition

Half of all voters who are initially supportive of ReadyReturn change their mind after learning more about the program. However, of voters who were initially opposed to the program, 89% maintain their opposition with additional information. 43 the 49% of voters who are initially opposed to the ReadyReturn program stay opposed to the program after hearing statements and arguments.

	SOLID	CHANGE MIND
Support	18	18
Oppose	43	6

## Costs Increase Opposition More

After being told of associated costs of millions of dollars per year to operate, opposition rose yet again, while support fell even further. Information about associated costs increases opposition to 79%, while decreasing support to only 11%, approximately one in nine voters, who still support the program after hearing statements, arguments, and cost information.

	SUPPORT	OPPOSE
ASK 1: Initial Ask	36	49
ASK 2: After Program Statements	25	67
ASK 3: After Arguments	24	70
ASK 4: After Cost Information	11	79
<b>CHANGE:</b>	<b>-13</b>	<b>+9</b>